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EQComments

Environmental Regulations and Montana's Economy

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This issue of EQComments focuses on our recent Environmental Regulations and Montana's Economy: A Public Forum. Held in Helena on October 4 and 5, the Forum attracted over 150 participants from industry, environmental groups, government, and Montana citizens.

Dr. Thomas Crocker from the University of Wyoming started the conference with a basic lecture on environmental economics. For the rest of that day and all of the next, some of Montana's foremost experts in environmental regulations and economic development entertained, informed, and challenged the audience.

One of the most intriguing sessions was entitled "Conflict Resolution and Environmental Mediation", with resource speakers Chris Moore from the Center for Environmental Problem Solving, ROMCOE; Richard Mullineaux from Shell Oil Company; and, Robert Turner from the National Audubon Society. They spoke of examples of cooperative problem solving that satisfied both sides of environmental disputes.

Following the conflict management session were case studies of recent and ongoing environmental conflicts including the Tongue River Railroad, the Troy ASARCO Mine, and a major subdivision in Billings. The participants soon were reminded that the conflict such controversies stir are complex and not easily resolved.

The Forum was a valuable experience for all who attended. For those who couldn't make it, the EQC plans to publish a proceedings of all the speakers' remarks. In this newsletter, we are also publishing transcripts of portions of the two keynote speeches. For the full text, look for the proceedings near the end of the year. We don't expect everyone to agree with these speeches but hope their remarks will spark continued discussion of the issues they have raised.

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Keynote: Dr. Richard Stroup



Dr. Richard Stroup, the first keynote speaker, recently left the Department of Economics at Montana State University to become the chief policy analyst for the U. S. Department of Interior.

"I'm sure you know the reputation of economics as the 'dismal science'. But some of us here today are enthusiastic about what we call the 'political economy of hope'. We'd suggest that our market economy, based as it is on a private ownership of natural resources, can make some strong and -- much more importantly -- some imaginative adjustments to the growing demand for conservation and preservation of natural resources.

You might be interested in our looks back in history to see why we're optimistic. History has demonstrated for us the connection between the ownership of resources and the stewardship of those resources. For example, beaver populations in one area several centuries ago were threatened by Native American trappers. Those Indians responded to that problem by essentially establishing private ownership of each beaver colony. This action prevented what Garrett Hardin called "The Tragedy of the Commons". Once each colony was owned by a particular family. That family had every incentive to conserve the beaver resource instead of trapping out the colony before someone else did.

Contrast that example with the buffalo on the Great Plains. For a while, just prior to the time the white man came in any great numbers, the buffalo were actually threatened in some locations by the various nomadic Indian tribes that suddenly had access to horses and guns.

Ownership of the buffalo could not be established. The buffalo didn't sit still, and neither did the tribe. Even though the Indians had a tradition of conserving the buffalo, the lack of ownership was very nearly fatal to the buffalo.

We can make the system of ownership work for resource conservation. A good modern example is Big Sky of Montana. Chrysler Realty and Chet Huntley recognized the rapid rise in the demand for Montana's scenic wonders. They set up a system to protect an entire mountain valley. Once they had established ownership to the valley. They subdivided the land and sold small parcels, but only after they established strong protective covenants on each parcel. Each buyer had to promise not to do a whole long list of environmentally damaging things in that valley. But each buyer was perfectly willing to make those promises, because the value of the property rose. That development increased the value of the entire mountain valley.

Western ranchers are another group that's finding that catering to the increased demand for outdoor recreation has quite a high payoff. Ranchers in many cases can make quite small changes in the way they manage their land -- primarily in the fence rows and the edges of the fields and

pastures -- which strongly increase the value of hunting on that land. When daily hunting fees or seasonal leases are involved, the revenue can be a big help to the rancher. There are even parts of Texas where ranchers earn more money from fee hunting than they do from all their traditional agricultural activities.

Even when profit is not involved, it is important to note that the market still works for environmentally concerned citizens. Even a single individual, or a small group of publicly spirited citizens, often can take advantage of an environmental opportunity just by purchasing the land or development rights to it. The National Audubon Society and its local chapters have done a lot of this. They own about a quarter million acres in their various private refuges. Ducks Unlimited and the Nature Conservancy play the same game, and so do several other organizations. The market mechanism here allows individuals who aren't silver-tongued orators even if they can't persuade a majority of the legislature or Congress, to exercise their vision anyway in their favorite local environments.

But just a minute, now. Can the environmentally concerned citizens actually outbid giant, multi-national corporations? Well, it turns out that these greedy corporations don't want to pay any more than they have to for the resources they want. And so, typically, all an environmental organization has to do is raise the ante just a little bit above what the corporation has to pay for a similar resource somewhere else, in a less environmentally sensitive area. And then the resource belongs to the environmentalist.

It's not that the environmentalists have more money -- it's that they have different goals. So typically, there's not that much conflict between them, any more than there is between them in the market for pickup trucks.

Does this mean there's no role for government in environmentalism? Of course not. Some resources are not owned: air and water, for example. And thus they are typically abused, like any other unowned resource. In situations like that, you've got to have government protection. The market is indeed imperfect, although government is too, I hasten to add. However, it is a comfort that private property rights and the market system are so frequently a powerful ally of those who are most concerned with environmentalism.

I think we have a tremendous amount of evidence that we can be optimistic about the ways in which the private sector is responding and will respond to our increasing sensitivity to the value of the natural environment. Let us not assume that market decisions are bad and that public decisions are good. Because market values typically represent true social needs, including, I believe, environmental needs."

Keynote: Dr. Henry Peskin

Dr. Henry Peskin, a Senior Research Fellow of Resources for the Future, gave the second keynote address: "Peculiarities of Environmental Regulation".

"I am an economist: I confess that at the outset. Since I am addressing a group of sophisticated legislators and policy experts who are all too familiar with the recent track record of economists, I know I can speak without any fear that I will be taken too seriously. And that's a good thing, since much of what I am about to say is easily open to misinterpretation.

For example, I am going to say that environmental policy hasn't had much overall effect on the economy one way or the other. But this does not mean that we can ignore the fact that certain firms may face serious hardships, or that environmental regulation potentially has very serious economic effects.

I also am going to say that the benefits of existing environmental policies probably are far smaller than what their proponents believe -- especially when these benefits are compared to policy costs. But this does not mean that I am against all environmental policy, especially those forms of environmental policy that may be more effective and promise a better balance between benefits and costs than those we have tried so far.

Finally I am going to point out that the benefits, costs, and net benefits (that is, benefits minus costs) of current environmental policies appear to be distributed very unevenly among households and regions of the nation. While some may conclude that the policies are thus 'unfair', I certainly draw no such conclusions. Policies with more even benefit and cost burdens are not necessarily better policies.

The 1970s, because of the passage of several landmark environmental laws, is sometimes called the environmental decade. Unfortunately, it also marked the beginning of some of the worst U. S. economic performance since World War II. The annual rate of real output growth declined by one-fourth (from about 4 to 3 percent per year); unemployment grew from an average of 4.8 percent in the 60s to an average of 6.2 percent (and still climbing); the rate of growth of real investment fell by half (from 4.8 to 2.5 percent); and we all know what happened to inflation.

It is natural that this juxtaposition of environmental gains and economic woes would lead many of see cause and effect. However, all the hard looks at the data that I know of have led to the conclusion that environmental regulation could account for at most a tenth of our present economic difficulties. This by no means is insignificant, but higher energy costs, changes in the composition of the labor force, and fiscal and monetary policies (especially through their effect on interest rates and investment) seem to play a far larger role.

This finding is not especially surprising when one looks at how the structure of environmental regulations affects costs. One notable feature of these regulations is their emphasis on the adoption of 'best' technologies. 'Best' often is defined implicitly by regulators as that technology already in use by the larger, 'more progressive' firms. Indeed, for these firms the incremental cost of regulations often is near zero. As a result, the incremental pollution control costs for an industry as a whole over and above what was experienced prior to the legislation of the 70s is far less than what one could guess by looking at reported environmentally related expenditures.

At Resources for the Future, we have estimated that fully-implemented versions of the 1970 Clean Air Act and the 1972 Clean Water Act would account for increased annual costs (including capital allowances) that total less than 2 percent of sales for most industries. The major exception is electric power generation, where the increased annual environmental costs approach 8 percent of sales. Of course, for individual firms the percentages could be far higher. On the other hand, the costs actually experienced by many firms are far lower since neither of these laws have been fully implemented. It is not surprising, therefore, that, despite occasional heavy spurts of environmental capital investment during the 1970s, these small costs have had very small observed economic effects.

I hasten to point out, however, that these observations of past economic effects may be very poor predictors of future economic effects. In the first place, we don't know the details of those regulations forthcoming under the 1977 amendments to the air and water acts. More important, we have no way of assessing the negative effects of regulatory uncertainty on business investment decisions. If this uncertainty proves to be important, the Administration -- which desires to lift regulatory burdens from business -- should take a close look at its own behavior. The performance of EPA over the past two years hardly generates clear signals for businessmen contemplating expensive investment decisions.

I turn now to the benefits of these environmental policies. We are all aware that this subject is very controversial. The usually asserted reason for this controversy is the difficulty of measuring the benefits of environmental improvement in physical terms, let alone in dollars. I would, however, like to call your attention to another source of controversy: the confusion between estimates of environmental damages and estimates of the benefits of those policies designed to deal with these damages. To assume that both concepts are essentially the same requires a most optimistic attitude toward policy.

The reason I feel that policy benefits have been largely overestimated is not because I doubt that pollution causes severe damages to society. Rather, I believe that policy benefits are smaller than others assert because many policies are not doing an effective job of attacking those damages.

While we can all agree that damages have something to do with ambient environmental conditions, the fact is that our policies deal with these conditions in a very indirect and imprecise manner. We focus on emissions and not on what these emissions do. The fuzzy focus on ambient conditions is due partly to poor monitoring networks: it's almost as if we don't want to know what real conditions are. Furthermore, when we do monitor, we tend to concentrate on what is easy to measure, regardless of its importance in causing environmental damage (for example, sulphur dioxide rather than sulfates).

The policies' neglect of ambient conditions is also due partly to reliance on technology-based standards, uniformly applied in very different geographical situations. Not only does this approach lead to the installation of expensive control technology in areas where such controls make minimal contributions to ambient quality, it also neglects important pollution sources -- principally agricultural and urban runoff -- for which easy technical solutions are hard to find. For example, my colleagues and I have estimated that agricultural erosion contributes about as much as industry to dissolved oxygen problems in the nation's waters (albiet in different locations). Urban runoff, another essentially uncontrolled sector, in many cities contributes half of such toxic materials as cadmium and lead.

We thus see that environmental policies often are poorly targeted with respect to geographical locations, sources of pollution, and the pollutants themselves. Targeting must improve before we can be assured that the magnitude of policy benefits can approach that of environmental damages. Finally, let me discuss the distributional implications of these laws.

Most analysts have found that the costs of environmental regulations are regressive: that is, the cost burden, as a percent of income, is higher for the poor than for the rich. In addition, these cost burdens, on a per capita basis, are fairly evenly distributed across the county: that is, the average Montana resident pays about the same for clean air and water as the average resident of New York. Both these distributional findings are natural consequences of three facts. First, industries are the principal objects of regulation; second, industrial costs generally can be absorbed in the prices of goods, regardless of where these goods are consumed; and third, the poor consume more as a percent of their incomes than do the rich.

In contrast to costs, policy benefits seem to be more unevenly and, perhaps, haphazardly, distributed. Again this result is due to heavy reliance on the uniform application of technical regulations, regardless of local conditions. For example, automobile emission regulations (and, hence, their cost burdens) are pretty much the same everywhere. However, the benefits of these regulations are far lower in the less densely populated states than in, say, east coast cities. Similarly, water pollution control regulations yield far fewer benefits in

non-industrialized areas with ample supplies of clean water than in heavily industrialized areas with limited water availability.

The distribution of benefits by income class is equally uneven. Our analyses indicate that, on balance, air pollution regulations benefit the poor more than the rich, while the reverse appears to be true for the benefits of water pollution control. As a result, the air pollution policy seems more equitable than the water pollution policy, even though the cost burdens of both policies are regressive. With the air policy, the cost burdens are more equitably offset by benefit gains. (One reason the same is not true for the water policy is that the level of benefits that can be attributed to current policy is much lower.) Given the inequity -- let alone the inefficiency -- of current approaches to water pollution, it is ironic that it is the Air Act and not the Water Act that is having the more difficult time getting reauthorized by the Congress.

The message I want to leave with you is that all these findings depend on features that are peculiar to existing approaches to regulating the environment. Effects on the economy, on benefit-cost ratios, and on distribution may change radically with changes in regulatory strategies.

Unfortunately, current policy debate almost totally ignores this seemingly obvious conclusion. Either you are for environmental regulation or you are against it. If you are for it, then you must be for existing 'command and control' strategies. In addition, you are expected to assert that these policies yield benefits in excess of costs, have 'favorable' distributional consequences (that is, they help the disadvantaged), and are good for the economy (that is, they reduce unemployment).

On the other hand, if you are against environmental policy, then you are expected to work for the weakening of existing regulations and delay in the implementation of new ones. It helps also if you can cite a few good examples of adverse economic impacts of governmental regulation (no need to confine yourself to environmental regulations), with emphasis on their 'unreasonable' costs.

The fact is that the public debate ignores the search by economists and policy specialists for more efficient, equitable, and less economically disruptive regulatory approaches. At best this is enormously costly. My hope is that forums like this will be the beginning of a grassroots movement toward rational political discussion of how best to manage both our economic and natural environments."

November Meeting for EQC

The full EQC will meet Tuesday, November 23 at 9:00 a.m. in Room 104 of the Capitol. The agenda includes staff reports and updates on the following issues: the Montana Environmental Policy Act (MEPA) and rules implementing that statute; solid waste management; pesticides; noxious weed control; and, small-scale hydroelectric development permitting and

impacts. The EQC will also hear proposals on increasing tax incentives for wind energy development and on the Montana/Canadian Relations Project. At the request of the EQC, the Department of Agriculture will present its legislative proposals for improving the pesticide management program.

EQC Subcommittees will report to the Council on hard-rock mining, the economy and the environment forum, and the alternative energy program.

An important element of the EQC meeting will be a discussion of several aspects of the subdivision review process. Following up on concerns raised by many individuals and groups, the EQC has requested the Department of Health and Environmental Sciences to explain its procedures now that the Subdivision Bureau has effectively been eliminated. The Council will discuss the relationship of MEPA to the subdivision review process, coordination with local government review, and the potential need for a programmatic environmental review of certain regions highly impacted by subdivision development.

For more information about the EQC meeting, please call the EQC office.

Public Hearing on Hard Rock Report

Rep. Dave Brown, Chairman of the Hard-Rock Mining Subcommittee, has called for a public hearing to be held on November 22 in Room 104 of the Capitol Building in Helena. The purpose of the hearing is to receive public comment on the draft report on the taxation of the hard-rock industry that is soon to be completed pursuant to HJR 66. Immediately following the hearing the Subcommittee will hold a working session and complete its deliberations on the hard-rock study. A final report will soon thereafter be issued and reviewed by the full EQC and Revenue Oversight Committee prior to its submission to the 1983 Legislature.

Contact EQC staff for additional information or to obtain a copy of the draft report in advance of the public hearing.

Ground Water Task Force Formed

An ad hoc technical group has been formed to address the issues raised during the Montana Ground Water Conference and to prepare a status report on the state's ground water resources. The group, chaired by Wayne Wetzel of the Department of Natural Resources and Conservation, includes representatives from state and federal agencies and the universities. During meetings held in August and October, the technical group identified various issues and technical problems that affect the utilization and protection of the state's ground water resources.

The status report will describe current information on the availability and quality of ground water and the various options for

improving the management and utilization of the resource. It will be made available to a special task force on ground water as recommended by the Environmental Quality Council. A summary of the report will be presented during the Montana Water Issues Forum to be held in Helena, December 2-3, 1982.

Forum on "Montana Water Issues"

Plans are progressing for a "Montana Water Issues Forum" in Helena, December 2-3, 1982. The Forum is being sponsored by the Montana Water Resources Research Center in cooperation with various agencies and interest groups. The purpose of the Forum is to present technical and legal information on a number of water issues that may be of special interest for the 1983 session of the Montana Legislature.

Pesticides Update

Pesticides and pesticide regulations continue to be important issues that concern many Montanans. During their August 31 meeting, the EQC heard testimony on pesticide problems from state agencies, public interest groups, and individuals. Concern was expressed about the potential hazards of pesticides and other toxic chemical residues found in wild game. There was also a call for state agencies to provide a more open flow of information about pesticide hazards and pesticide use in Montana.

Gordon McOmber, Director of the Department of Agriculture, reported that his agency is proceeding with the development of an environmental impact study on the proposed new rules for endrin. However, he indicated progress is slow due to inadequate funds for this purpose.

The EQC directed the staff to investigate how state agency response to pesticide problems might be improved.

In September the Department of Agriculture held an informational meeting to explain their proposed legislative changes in the Montana Pesticide Act and their proposed budget requests for pesticide regulatory programs.

In October the Pesticide Advisory Council met in Helena to review the proposed legislative changes, budget requests, and the department's progress in testing the effectiveness of alternative chemicals for cutworm control.

Fall Cycle of Alternative Energy Grants

The Department of Natural Resources will present its recommendations for the fall cycle of alternative energy grants to the Renewable Energy

Advisory Council (REAC) on Wednesday, November 3, at 9:00 a.m. in the DNRC Conference Room.

The REAC will also review the newly instituted loan program, including the status of applicants authorized for loan consideration, a summary of public and institutional response to the loan program, and any public comments. Loan applications tabled at last spring's REAC meeting will be reconsidered.

The EQC Alternative Energy Subcommittee will meet jointly with REAC at that time to discuss policy concerns and possible legislative recommendations for the program.

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EIS Update

LEAD AGENCY	PROJECT	DRAFT EIS	FINAL EIS	COMMENTS
Highways	Hungry Horse-West Glacier Highway Project	9-81	9-82	
DNRC	Kootenai River Hydro-electric Project	Released 7-82		
DSL	Anaconda Platinum / Paladium Mine, Stillwater County	Released 6-82	Early 83	
DSL	Consolidation Coal CX Ranch Mine, Bighorn County	Fall 1983		
DSL	Wolf Mountain Mine, Bighorn County	Fall 1983		
DSL	Montco Mine,	5-82	Early 83	
DSL	Western Energy Area C Extension, Rosebud Mines, Rosebud County	Released 6-82	Rosebud County Released 8-82	Approved
DSL	Area B Extension Western Energy Rosebud Mine Comprehensive EIS, Rosebud County	Early 83 Due Late 1982		
DOE/BPA BPA	1982 Rate Proposal Vegetation Management in Six-State Region	4-82 10-82 Comments due 12-6-82 Released 5-82	8-82	
DOI/BLM	Missouri Breaks Wilderness Suitability	Released 5-82		
DOI/BLM	Wilderness Planning for Dillon Resource Area	Released 5-82		
DOI/BLM	Fort Union Coal Region Leasing Plan	Released 7-82		
DOT	Highway 61 Reconstruction	1-82		

The need for an environmental impact statement for a project is not always known by state agencies. In these cases, the agencies assess the likely impacts in a PER, or preliminary environmental review. The PER may recommend a full EIS be prepared for the project, or find that no significant impact (NSI) is expected.

While agencies usually send PERs to all interested parties, the EQC is the only office that all agencies are required to send a PER; so beginning with this issue, we will publish a list of current PERs. The public comment periods are brief, so contact EQC or the lead agency immediately if you have a question or comment about a project.

Recent PERs

Lead Agency	Project	Date Received	Recommendation
DHES	Pleasant View Subdivision, Dawson Co.	9-7	NSI
DHES	Eagle Bend Subdivision, Flathead Lake	9-10	NSI
DHES	Broadwater Co. Landfill Expansion	9-22	NSI
DHES	Glacier Village Green Subd., NE of Kalispell	10-8	No Recommnd.
DSL	Geothermal Lease Sale, School Trust Lands	9-15	NSI
FW&P	Transfer 3 Horses to Wild Horse Island	9-15	NSI
DOH	Safety Improvements N of Polson	9-16	NSI
DOH	U.S. 2 Reconstruction, SE of Libby	9-17	NSI

EQComments is prepared by the Montana Legislative
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Contact us at EQC, Capitol Station, Helena, MT
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